UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE

WRITTEN STATEMENT OF DENNIS MCDONALD
OPEN SPEAR RANCH, MELVILLE, MONTANA

INTERNATIONAL MARKETS COMMITTEE CHAIRMAN, RANCHER-CATTLEMEN ACTION LEGAL FUND, UNITED STOCKGROWERS OF AMERICA (R-CALF USA)

Chairman Goodlatte, Ranking Member Stenholm, members of the Committee, I am Dennis McDonald, Trade Committee Chairman of Ranchers-Cattlemen Action Legal Fund – United Stockgrowers of America (R-CALF USA). R-CALF USA works tirelessly on behalf of the American cattle and livestock producer. Our focus has been on protecting and promoting the interests of independent livestock producers, and it is from that perspective that I come before you today. I followed with great interest the comments of both Secretary Veneman and Ambassador Zoellick when they testified before this committee several weeks ago concerning international trade, and I appreciate the opportunity to once again come before you and express our views on developments in international trade and their impact on American agriculture.

During his testimony last month, Ambassador Zoellick made it clear that the United States' number 1 trade priority was to restart and successfully conclude the Doha Round of WTO negotiations-- R-CALF USA could not agree more. R-CALF USA has long advocated, and continues to support, efforts to open up U.S. beef export markets by reducing global tariffs to those levels existing in the U.S. for cattle and beef. USDA and USTR report that the average allowed tariff on beef around the world is 85%, while the U.S. in-quota tariff rate is 0% and out-of-quota tariff rate is 26.4%. This wide disparity in tariff treatment must be addressed because it severely limits market access for U.S. beef abroad.

We also support efforts to eliminate and prevent the proliferation of non-tariff barriers to beef trade, such as the use of health regulations to unjustifiably block U.S. beef exports. For a decade U.S. beef exports have been virtually shut out of the European Union based on unjustifiable health regulations. Recent reports from American embassies around the world indicate that the use of these non-tariff trade barriers has spread to an ever-increasing number of countries. As an example, USDA counselors in Thailand report that officials there have begun to place more stringent standards on imported products than domestic products.[1] The United States must prevent the proliferation of these types of protectionist tools and the WTO is the only place where effective action can be taken.

R-CALF USA also strongly supports efforts to eliminate global, direct and indirect, subsidies given to beef producers in other parts of the world. For a decade the European Union's beef export subsidies have lead to depressed prices for beef around the world and hurt our ability to penetrate markets abroad. R-CALF USA strongly agrees with USTR's goal to eliminate all export subsidies by a date certain.

Next the harmonization and elimination of domestic support programs in the cattle and beef sector must be aggressively addressed by USTR. Cattle producers in Europe, even under the new CAP "reforms", receive domestic support payments worth billions of dollars every year. Cattlemen in Brazil benefit from hundreds of millions of dollars in low interest loans designed to increase cattle production and productivity in that country. As Members of this Committee, each of you is no doubt aware that the only government assistance the American cattle industry receives is disaster assistance. Domestic support programs around the world distort the true costs of production and create an uneven playing field for U.S. cattlemen when we compete for

[1] USDA, FAS, *Thailand: Trade Policy Monitoring 2004*, GAIN Report TH4033 at 8 (3/16/2004).

markets abroad. The distortions created by domestic support programs in cattle and beef must, at the very least, be minimized if not eliminated outright.

R-CALF USA also shares USTR's goal of addressing the trade-distorting effects of State Trading Enterprises, like the Canadian or Australian Wheat Boards. R-CALF USA believes that by artificially controlling prices for feed grains these State Trading Enterprises provide an indirect subsidy for Canadian and Australian livestock producers. Indeed, in October 2002, in response to concerns expressed by livestock producers about the high costs of feed grains due to low supplies caused by drought, the AWB stated that "the AWB National Pool is currently tailoring its current wheat export program in order to preserve vital grain stocks in drought-affected regions of Australia."[2] While the AWB has "no legislated market power" to set grain prices in the domestic market,[3] the action I have just described could lead to lower feed prices in the Australian market, thus benefiting cattle producers there. USTR must act aggressively to reform or eliminate these institutions.

Finally, Ambassador Zoellick left off one important priority when he appeared before you last month, namely the importance of ensuring that special rules associated with perishable, seasonal and cyclical agricultural products are incorporated into the WTO Agriculture Agreement. Neither the GATT nor the WTO has ever examined whether international trading rules, designed for industrial goods, should be applied on equal terms to perishable, seasonal and cyclical agricultural products. Perishable, seasonal and cyclical products, such as cattle, cannot be stored like industrial goods or non-perishable agricultural products such as grain or cotton. When perishable, seasonal and cyclical products are ready for sale they must be sold;

[2] Australian Wheat Board Ltd, *AWB confident that domestic grain demand can be met* (press release), October 18, 2002, *available at* http://www.awb.com.au/AWB/user/news/news_item.asp?NewsID=211, *retrieved on* January 15, 2003.

[3] *Id*.

international trading rules designed for industrial goods do not currently take this into account. As Congress pointed out in the Trade Act of 2002, they should.

The WTO is the only forum in which all of these issues can be effectively addressed. Unfortunately, as Ambassador Zoellick himself noted the Doha Round of trade negotiations have broken down and talks are only slowly restarting. R-CALF USA believes that before the United States enters into bilateral or regional FTAs with major agricultural producing countries with small internal markets, the major global distortions caused by tariffs, non-tariff barriers and subsidies must be eliminated. Furthermore, any FTA must address and eliminate internal distortions within the proposed trading partner that impede trade in cattle and beef.

The liberalization of agricultural markets on a bilateral basis is a delicate balance. If USTR liberalizes markets where the U.S. cattle industry is likely going to fare poorly and it is unable to simultaneously open the major consuming markets where the U.S. cattle industry will do reasonably well, then USTR will put the U.S. cattle industry in the position that we will lose market shares globally and domestically, not because we are not competitive, but because we expand market access in the U.S. far ahead of equitable access abroad. FTAs that do not address these distortions will result in worsened long and short-term outcomes for U.S. cattle producers. Rather than unilaterally removing existing restrictions, the United States should be exploring ways in which to best address the problems of perishable and cyclical agricultural producers. If we cannot achieve agreement on special measures to address perishable and cyclical agricultural products, then USTR should seek parity of tariffs among our trading partners and ourselves on beef, eliminate all subsidy and non-tariff barrier distortions to trade in beef between ourselves and our trading partners, and, in the interim, we should maintain current existing TRQs and Special Safeguards on beef imports.

Despite significant efforts by the Administration, such a situation does not exists with the U.S.-Australia FTA as it does not address internal distortions within Australia that artificially lower production costs for beef in that country. As I noted above, the AWB provides Australian producers artificial production advantages. In conjunction with the massive distortions generated by actions of other major trading partners and the lack of market access in other overseas markets, the U.S.-Australia FTA will exacerbate an existing unacceptable market situation for U.S. cattle producers and thus R-CALF USA can not support the U.S-Australia FTA.

Likewise, R-CALF USA is also concerned about the proposed FTAA that is currently scheduled for completion in 2005, and which may well provide increased market access for beef from cattle herds in South America numbering well in excess of 200 million head. Markets in major beef producing countries such as Brazil, Argentina and Uruguay offer little possibility of reciprocal beef trade. In addition, the recently completed CAFTA and the proposed Andean FTA allow significant cattle producing countries with relatively small internal markets increased access to the United States during a period of extreme vulnerability. Such agreements should follow, not precede, global talks to eliminate subsidies, remove tariff and non tariff barriers to beef trade that distort open markets.

Before I conclude, I would also like to mention that R-CALF USA shares USDA's goal of opening up the Japanese market to U.S. beef exports as quickly as possible. While we may disagree about the best way to accomplish that goal, rest assured that both USDA and R-CALF USA believe that reopening U.S. exports markets will help ensure that American cattlemen receive the highest possible value for the superb cattle that we produce in this country. In that regard R-CALF USA fully supports the ultimate goal of the Administration in Japan, and we welcomed Secretary Veneman's announcement of a new series of intense negotiations between the United States and our Japanese trading partners and we hope to be as involved as possible in that process.

I'd like to also say a few words about the impending WTO panel decision on cotton. R-CALF USA has long been concerned about overactive WTO panels creatively interpreting WTO treaties to create obligations that were never agreed to through negotiation. We have seen such "creativity" with regard to obligations under the Antidumping and Subsidies Codes. We oppose such efforts to create new obligations and thus we stand united with and support this Committee's efforts, and the efforts of the Administration, to defend and preserve the rights of our rural neighbors who grow row crops. The day when the American agricultural community could be divided against itself has passed.

In conclusion, the United States currently faces a large and growing trade deficit in terms of our total imports of beef/veal and cattle versus our total exports of beef/veal and cattle. Before the discovery of BSE in 2003, total beef/veal and cattle exports, as converted to pounds has fallen from 2.9 billion pounds in 2000 to 2.6 billion pounds in 2002 while beef/veal and cattle imports have risen from 4.65 billion pounds in 2000 to 5.1 billion pounds in 2002. We believe that this deficit illustrates the need to develop comprehensive solutions to the problems faced by the cattle industry that can only be accomplished at the WTO, and in the Doha Round. In absence of such comprehensive solutions we believe the United States should not agree to a series of FTAs with major agricultural producing countries with small internal markets that will result in the erosion of the American cattle industry with no appreciable benefits. We urge the Congress to see that as a general matter liberalization does not occur in a lopsided fashion going forward where the U.S. agrees to deals that will hurt the cattle industry but are unable to open large consuming markets abroad. To that end we supported the U.S. - Chile, U.S. - Singapore FTAs last year as opportunities to expand U.S. exports into consuming countries, and we support for the same reasons the U.S. - Thailand and U.S. - Morocco FTA this year. Further, if we must enter into an FTA with a major beef producing country, then it must address and eliminate any internal distortions within the proposed trading partner that impede trade in cattle and beef while also recognizing the special needs of perishable producers.

Thank you,

Dennis McDonald